

ACTION  
OCA 87-0495

**OFFICE OF CONGRESSIONAL AFFAIRS**

**Routing Slip**

	ACTION	INFO
1. D/OCA		X
2. DD/Legislation	X	
3. DD/Senate Affairs		X
4. Ch/Senate Affairs		
5. DD/House Affairs		X
6. Ch/House Affairs		
7. Admin Officer		
8. Executive Officer		X
9. FOIA Officer		
10. Constituent Inquiries Officer		
11. SA <input type="text"/>		
12.		

SUSPENSE 18 Feb 87  
Date

Action Officer:

Remarks: ACTION COMPLETED PER LR  
DTD 2/26/87 (OCA 87-0734)

10 Feb 87

Name/Date

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EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

87-0495

**SPECIAL**

February 6, 1987

**LEGISLATIVE REFERRAL MEMORANDUM****TO: Legislative Liaison Officer -**

Department of Agriculture  
Department of Commerce  
Department of Defense  
Department of Education  
Department of Energy  
Department of Health and Human Services  
Department of Housing and Urban Development  
Department of the Interior  
Department of Justice  
Department of Labor  
Department of State  
Department of Transportation  
Department of the Treasury  
Agency for International Development  
Council of Economic Advisers  
Central Intelligence Agency  
Environmental Protection Agency  
General Services Administration  
National Aeronautics and Space Administration  
Small Business Administration  
U.S. Information Agency  
Veterans Administration

**SUBJECT: OPM draft bill "To amend title 5, United States Code, to reform the Civil Service Retirement System, and for other purposes."**

**This draft bill carries out proposals in the President's Fiscal Year 1988 Budget. Expedited review by the date shown below is necessary.**

The Office of Management and Budget requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

**A response to this request for your views is needed no later than Wednesday, February 18, 1987.**

**Questions should be referred to Hilda Schreiber (395-7362), the legislative analyst in this office.**

*Naomi R. Sweeney*

**Naomi R. Sweeney for  
Assistant Director for  
Legislative Reference**

**Enclosures**



Office of the Director

UNITED STATES  
OFFICE OF PERSONNEL MANAGEMENT  
WASHINGTON, D.C. 20418

Honorable George Bush  
President of the Senate  
Washington, D.C. 20510

Dear Mr. President:

The Office of Personnel Management submits herewith a legislative proposal, "To amend title 5, United States Code, to reform the Civil Service Retirement System, and for other purposes." This proposal would implement recommendations contained in the President's budget for fiscal year 1988. We request that you refer this proposal to the appropriate committee for early consideration.

With the enactment in June 1986 of a new Federal Employees' Retirement System (FERS) for Federal workers hired on or after January 1, 1984, the overly generous features of the Civil Service Retirement System (CSRS), which still covers most Federal employees, are even more anomalous than before. The full CPI indexation of cost-of-living adjustments that has been provided under CSRS is essentially without parallel in private sector pension plans, and badly needs correction. This draft bill would bring retirement benefits under the old CSRS program more into line with those under FERS by altering the method of computing cost-of-living adjustments under the old system to conform with the new system, basically providing adjustments one percentage point below each year's increase in the CPI.

In addition, the proposal would eliminate unwarranted subsidies from the Civil Service Retirement Fund by requiring the United States Postal Service and the District of Columbia government each to contribute to the Fund an additional 2 percent of the basic pay of their CSRS-covered employees each year until their payments, when combined with employee deductions, are sufficient to cover the dynamic normal cost of the CSRS.

Finally, the proposal would repeal from the old and new retirement systems provisions which permit employees to withdraw all their contributions to the systems in a lump sum at the time of retirement. These provisions create significant short-term outlays which pose major problems in meeting the Government's statutorily mandated deficit reduction targets.

Honorable George Bush

We estimate that these proposed changes would reduce the budget deficit (i.e., increase receipts or reduce outlays) by the following amounts:

Fiscal Year 1988	\$1,511 million
Fiscal Year 1989	1,702 million
Fiscal Year 1990	1,905 million
Fiscal Year 1991	2,121 million
Fiscal Year 1992	2,281 million
1988-92 total	<u>\$9,520 million</u>

The Office of Management and Budget advises that enactment of this proposal would be in accord with the program of the President.

A similar letter is being sent to the Speaker of the House of Representatives.

Sincerely,

Constance Horner  
Director

Enclosures

**A BILL**

**To amend title 5, United States Code, to reform the Civil Service Retirement System, and for other purposes.**

**Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Civil Service Retirement Reform Act of 1987".**

**Sec. 2. Chapter 83 of title 5, United States Code, is amended--**

**(1) in section 8340--**

**(A) in subsection (a)--**

**(i) in paragraph (1) by striking out "and" at the end thereof;**

**(ii) in paragraph (2) by striking out the period at the end thereof and inserting in lieu thereof ";and"; and**

**(iii) by adding at the end thereof the following new paragraph:**

**"(3) the term 'percent change in the price index', as used with respect to a year, means the percentage derived by--**

**"(A) reducing--**

**"(i) the price index for the base quarter of such year, by**

**"(ii) the price index for the base quarter of the preceding year in which an adjustment under this subsection was made;**

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"(B) dividing the difference under subparagraph (A) by the price index referred to in subparagraph (A)(ii); and

"(C) multiplying the quotient under subparagraph (B) by 100."; and

(B) by amending subsection (b) to read as follows:

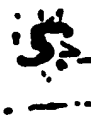
"(b)(1) Except as provided in subsection (c), effective December 1 of any year in which an adjustment under this subsection is to be made, as determined under paragraph (2), each annuity payable from the Fund under this chapter having a commencing date not later than such December 1 shall be adjusted as follows:

"(A) If the percent change in the price index for the year does not exceed 3 percent, each annuity subject to adjustment under this subsection shall be increased by the lesser of--

"(i) the percent change in the price index (rounded to the nearest one-tenth of 1 percent); or

"(ii) 2 percent.

"(B) If the percent change in the price index for the year exceeds 3 percent, each annuity subject to adjustment under this



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subsection shall be increased by the excess  
of--

"(i) the percent change in the  
price index (rounded to the nearest one-  
tenth of 1 percent), over

"(ii) 1 percent.

"(2) An adjustment under this subsection  
shall be made in a year only if the price index  
for the base quarter of such year exceeds the  
price index for the base quarter of the preceding  
year in which an adjustment under this subsection  
was made."; and

(2) in section 8348--

(A) in subsection (h)(1) by inserting before  
"authorizes" the following: ", prior to October 1,  
1987."; and

"(B) by adding at the end thereof the following  
new subsection:

"(j) The United States Postal Service and the  
District of Columbia government shall each contribute  
to the Fund a sum to be determined by applying to the  
total basic pay (as defined in section 8331(3) of this  
title) paid to its employees who are covered by the



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Civil Service Retirement System the percentage rate that is the excess of the total normal cost percentage rate for the System, as most recently determined by the Board of Actuaries of the Civil Service Retirement System, and including the effects of future increases in pay and future cost-of-living adjustments, over the employee deduction rate specified in section 8334(a) of this title. If such rate determined by the Board for any fiscal year differs from the rate used in the previous fiscal year, such new rate may not take effect under this subsection until the beginning of the fiscal year which follows that determination by more than one year."

Sec. 3. Chapter 84 of title 5, United States Code, is amended--

(1) by repealing section 8420a;

(2) in section 8424(a) by striking out "Except as provided in section 8420a, payment" and inserting in lieu thereof "Payment"; and

(3) in the analysis by striking out the item relating to section 8420a.

Sec. 4. Public Law 99-335 is amended--

(1) by repealing sections 204, 408, and 505 and the amendments made by such sections; and

(2) by amending section 702--

-4-

(A) in paragraph (3) by striking out  
"sections 204 and" and inserting in lieu thereof  
"section";

(B) in paragraph (5) by striking out  
"Sections 505 and" and inserting in lieu thereof  
"Section".

Sec. 5. (a) Except as provided by subsection (b)  
of this section, the amendments made by this Act shall  
take effect on the date of enactment of this Act.

(b) Notwithstanding the provisions of section  
8348(i) of title 5, United States Code, as added by  
section 2(2)(B) of this Act, in the fiscal year  
beginning on October 1, 1987, the United States Postal  
Service and the District of Columbia government shall  
each contribute to the Fund a sum to be determined by  
applying to the total basic pay (as defined in section  
8331(3) of title 5, United States Code) paid to its  
employees the employee deduction rate specified in  
section 8334(a) of title 5, United States Code, plus 2  
percent. In each succeeding fiscal year, the rate  
shall be increased by an additional 2 percent, or such  
lesser amount as is necessary, until it equals the rate  
determined annually by the Office of Personnel  
Management under such section 8348(j), after which it  
shall be determined in accordance with such section  
8348(j).

## SECTION-BY-SECTION ANALYSIS

To accompany a draft bill

"To amend title 5, United States Code, to reform the Civil Service Retirement System, and for other purposes."

The first section titles the bill as the "Civil Service Retirement Reform Act of 1987."

Section 2 contains the various amendments to chapter 83 of title 5, United States Code, designed to bring the Civil Service Retirement System more into line with the newly-created Federal Employees' Retirement System and to reduce unwarranted subsidies from the Civil Service Retirement Fund to the United States Postal Service and the District of Columbia government.

Paragraph (1) of section 2 amends section 8340 by adding a new paragraph (3) to subsection (a) defining the term "percent change in the price index," and by revising subsection (b) to provide that cost-of-living adjustments shall be either the lesser of the percent change in the consumer price index (CPI) or 2 percent, if the change in the CPI does not exceed 3 percent, or the percent change in the CPI minus 1 percent, if the CPI change exceeds 3 percent. This computation method is consistent with that provided under the Federal Employees' Retirement System. Paragraph (1) also authorizes an adjustment only in a year in which the CPI for a base quarter exceeds the CPI for the base quarter of the preceeding year in which an adjustment was made.

Paragraph (2) of section 2 amends section 8348 to end the requirement that the Postal Service pay for certain increases in the unfunded liability of the Civil Service Retirement System. Assessments under subsection (h) of section 8348 will be limited to Postal Service pay increases prior to October 1, 1987. However, paragraph (2) then adds a new subsection (j) to section 8348, requiring the Postal Service and the D.C. government each to contribute to the Fund a sum to be determined by applying to the total basic pay, as defined in section 8331(3) of title 5, United States Code, paid to its employees covered by Civil Service Retirement, the percentage rate that is the excess of the total normal cost for the Retirement System, as most recently determined by the Board of Actuaries of the Civil Service Retirement System, including the effects of future cost-of-living adjustments and future increases in pay, over the employee deduction rate specified in section 8334(a) of

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title 5, United States Code. If the normal cost for any fiscal year differs from the previous year's rate, the new rate is not used in computing the Postal Service or D.C. government payment until the beginning of the first fiscal year following the rate determination by more than a year.

Section 3 amends chapter 84 of title 5, United States Code, by repealing section 8420a, relating to alternative forms of annuities under the Federal Employees' Retirement System. Section 8424(a) and the analysis for chapter 84 are also amended to eliminate references to the repealed section.

Section 4 amends Public Law 99-335 by repealing sections 204, 408, and 505 and the amendments made by those sections, thus eliminating the provisions relating to alternative forms of annuities under the Civil Service Retirement System, the Foreign Service Retirement System, and the CIA Retirement System, respectively. Section 702 is also amended in paragraphs (3) and (5) to eliminate references to repealed sections 204 and 505, respectively.

Section 5 provides in subsection (a) that, except as provided in subsection (b) of that section, amendments made by the Act shall take effect on the date of enactment of the Act.

Subsection (b) provides for phasing in increased contributions to the Retirement Fund by the Postal Service and the D.C. government by stating that, notwithstanding the provisions of section 8348(j) of title 5, United States Code, as added by section 2(2)(B) of the Act, in fiscal year 1987, each of those entities shall contribute to the Fund a sum to be determined by applying to the total basic pay, as defined by section 8331(3) of title 5, United States Code, paid to its employees the employee deduction rate specified in section 8334(a) of title 5, United States Code, plus 2 percent. Then, in each succeeding fiscal year, the rate shall be increased by 2 percent, or such lesser amount as is necessary, until it equals the rate determined under the new section 8348(j).

## STATEMENT OF PURPOSE AND JUSTIFICATION

To accompany a draft bill

"To amend title 5, United States Code, to reform the Civil Service Retirement System, and for other purposes."

### Cost-of-Living Adjustments

In June 1986, a new Federal Employees' Retirement System (FERS) was created to cover Federal employees hired on or after January 1, 1984. The new system more closely parallels private sector practice than the older Civil Service Retirement System (CSRS), which retains many of the overly generous features that were not incorporated into the new system. For example, only 3 percent of all private pensions are fully and automatically adjusted for inflation, and yet benefits under the CSRS continue to be linked to the total change in the Consumer Price Index (CPI).

In order to provide greater consistency with the private sector and restore a measure of equity within the Federal service, the draft bill would revise the method of computing cost-of-living adjustments under CSRS to conform with that applied to most individuals covered by FERS. Effective on the date of enactment, adjustments would be limited to either the lesser of the percent change in the CPI or 2 percent, if the CPI change does not exceed 3 percent, or the percent change in the CPI minus 1 percent, if the CPI change exceeds 3 percent. The proposed change would reduce outlays by \$183 million in the first fiscal year and by nearly \$3.7 billion over the first 5 fiscal years.

### Contribution Rates for Postal Service and D.C. Government

The rates at which agencies contribute to the Civil Service Retirement Fund currently parallel the rates paid by employees. This is true even for purportedly financially self-sufficient entities such as the United States Postal Service and the D.C. government. Under this proposal, these two entities would be charged the difference between the dynamic normal cost of the Retirement System (as determined by the Board of Actuaries) and the employee contribution rate, thus ending a substantial, hidden Federal subsidy to these entities. This change would be phased in by adding 2 percent each year to the agency contribution rate until the correct contribution rate is reached, and is expected to generate additional income of more than \$170 million in the first 5 years.

### Lump Sum Withdrawals

Public Law 99-335, which created the new retirement system for Federal employees, introduced a new feature not only in that system but also in the other major Federal retirement systems. For the first time, employees were given the opportunity to withdraw all their contributions to the system in a lump sum at the time of retirement and receive a reduced annuity based only on the Government's contributions. These provisions have created significantly increased outlays in the near term, posing major problems in meeting the deficit reduction targets mandated by law.

In addition, we are concerned about the risk of inadequate retirement annuities presented by this election, especially for lower income employees. Since we do not expect employees to receive any economic advantage from their choice, the risk of having employees make a poor choice and jeopardize their long-term retirement living standard is difficult to justify, particularly when it impedes our efforts to reduce the Federal deficit.

The bill would, therefore, repeal the alternative annuity provisions from all major Federal retirement systems, effective on the date of enactment. Reductions in outlays would be more than \$1.3 billion in the first year and nearly \$5.7 billion in the first 5 years.

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Next 2 Page(s) In Document Denied

OCA 87-0437  
10 February 1987

MEMORANDUM FOR: Director of Personnel

FROM:   
Legislation Division  
Office of Congressional Affairs

SUBJECT: Civil Service Retirement System Reform

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1. OMB has requested the views of the Agency with respect to the attached OPM proposal to reform the Civil Service Retirement System. The proposal would alter the methods to compute cost of living adjustments so as to reduce the COLAs, require contribution into the system by the U.S. Post Office and District of Columbia employees, and eliminate the option to receive lump sum payments upon retirement for employees under the old and new retirement systems.

2. I believe it is unlikely that Congress will be ready to accept these proposals given that they just completed last year a major overhaul of the retirement system.

3. OMB has requested our views by February 18. I would very much appreciate obtaining the views of the Office of Personnel with respect to this proposal by that date.

STAT

Attachment as  
stated





UNITED STATES  
OFFICE OF PERSONNEL MANAGEMENT  
WASHINGTON, D.C. 20415

Honorable George Bush  
President of the Senate  
Washington, D.C. 20510

Dear Mr. President:

The Office of Personnel Management submits herewith a legislative proposal, "To amend title 5, United States Code, to reform the Civil Service Retirement System, and for other purposes." This proposal would implement recommendations contained in the President's budget for fiscal year 1988. We request that you refer this proposal to the appropriate committee for early consideration.

With the enactment in June 1986 of a new Federal Employees' Retirement System (FERS) for Federal workers hired on or after January 1, 1984, the overly generous features of the Civil Service Retirement System (CSRS), which still covers most Federal employees, are even more anomalous than before. The full CPI indexation of cost-of-living adjustments that has been provided under CSRS is essentially without parallel in private sector pension plans, and badly needs correction. This draft bill would bring retirement benefits under the old CSRS program more into line with those under FERS by altering the method of computing cost-of-living adjustments under the old system to conform with the new system, basically providing adjustments one percentage point below each year's increase in the CPI.

In addition, the proposal would eliminate unwarranted subsidies from the Civil Service Retirement Fund by requiring the United States Postal Service and the District of Columbia government each to contribute to the Fund an additional 2 percent of the basic pay of their CSRS-covered employees each year until their payments, when combined with employee deductions, are sufficient to cover the dynamic normal cost of the CSRS.

Finally, the proposal would repeal from the old and new retirement systems provisions which permit employees to withdraw all their contributions to the systems in a lump sum at the time of retirement. These provisions create significant short-term outlays which pose major problems in meeting the Government's statutorily mandated deficit reduction targets.

Honorable George Bush

We estimate that these proposed changes would reduce the budget deficit (i.e., increase receipts or reduce outlays) by the following amounts:

Fiscal Year 1988	\$1.511 million
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Fiscal Year 1990	1.905 million
Fiscal Year 1991	2.121 million
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1988-92 total	<u>\$9.520 million</u>

The Office of Management and Budget advises that enactment of this proposal would be in accord with the program of the President.

A similar letter is being sent to the Speaker of the House of Representatives.

Sincerely,

Constance Horner  
Director

Enclosures

**A BILL**

**To amend title 5, United States Code, to reform the Civil Service Retirement System, and for other purposes.**

**Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Civil Service Retirement Reform Act of 1987".**

**Sec. 2. Chapter 83 of title 5, United States Code, is amended--**

**(1) in section 8340--**

**(A) in subsection (a)--**

**(i) in paragraph (1) by striking out "and" at the end thereof;**

**(ii) in paragraph (2) by striking out the period at the end thereof and inserting in lieu thereof ";and"; and**

**(iii) by adding at the end thereof the following new paragraph:**

**"(3) the term 'percent change in the price index', as used with respect to a year, means the percentage derived by--**

**"(A) reducing--**

**"(i) the price index for the base quarter of such year, by**

**"(ii) the price index for the base quarter of the preceding year in which an adjustment under this subsection was made;**

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"(B) dividing the difference under subparagraph (A) by the price index referred to in subparagraph (A)(ii); and

"(C) multiplying the quotient under subparagraph (B) by 100."; and

(B) by amending subsection (b) to read as follows:

"(b)(1) Except as provided in subsection (c), effective December 1 of any year in which an adjustment under this subsection is to be made, as determined under paragraph (2), each annuity payable from the Fund under this chapter having a commencing date not later than such December 1 shall be adjusted as follows:

"(A) If the percent change in the price index for the year does not exceed 3 percent, each annuity subject to adjustment under this subsection shall be increased by the lesser of--

"(i) the percent change in the price index (rounded to the nearest one-tenth of 1 percent); or

"(ii) 2 percent.

"(B) If the percent change in the price index for the year exceeds 3 percent, each annuity subject to adjustment under this

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subsection shall be increased by the excess  
of--

"(i) the percent change in the  
price index (rounded to the nearest one-  
tenth of 1 percent), over

"(ii) 1 percent.

"(2) An adjustment under this subsection  
shall be made in a year only if the price index  
for the base quarter of such year exceeds the  
price index for the base quarter of the preceding  
year in which an adjustment under this subsection  
was made."; and

(2) in section 8348--

(A) in subsection (h)(1) by inserting before  
"authorizes" the following: ", prior to October 1,  
1987."; and

"(B) by adding at the end thereof the following  
new subsection:

"(j) The United States Postal Service and the  
District of Columbia government shall each contribute  
to the Fund a sum to be determined by applying to the  
total basic pay (as defined in section 8331(3) of this  
title) paid to its employees who are covered by the

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Civil Service Retirement System the percentage rate that is the excess of the total normal cost percentage rate for the System, as most recently determined by the Board of Actuaries of the Civil Service Retirement System, and including the effects of future increases in pay and future cost-of-living adjustments, over the employee deduction rate specified in section 8334(a) of this title. If such rate determined by the Board for any fiscal year differs from the rate used in the previous fiscal year, such new rate may not take effect under this subsection until the beginning of the fiscal year which follows that determination by more than one year."

Sec. 3. Chapter 84 of title 5, United States Code, is amended--

- (1) by repealing section 8420a;
- (2) in section 8424(a) by striking out "Except as provided in section 8420a, payment" and inserting in lieu thereof "Payment"; and
- (3) in the analysis by striking out the item relating to section 8420a.

Sec. 4. Public Law 99-335 is amended--

- (1) by repealing sections 204, 408, and 505 and the amendments made by such sections; and
- (2) by amending section 702--

**(A) in paragraph (3) by striking out "sections 204 and" and inserting in lieu thereof "section";**

**(B) in paragraph (5) by striking out "Sections 505 and" and inserting in lieu thereof "Section".**

**Sec. 5. (a) Except as provided by subsection (b) of this section, the amendments made by this Act shall take effect on the date of enactment of this Act.**

**(b) Notwithstanding the provisions of section 8348(i) of title 5, United States Code, as added by section 2(2)(F) of this Act, in the fiscal year beginning on October 1, 1987, the United States Postal Service and the District of Columbia government shall each contribute to the Fund a sum to be determined by applying to the total basic pay (as defined in section 8331(3) of title 5, United States Code) paid to its employees the employee deduction rate specified in section 8334(a) of title 5, United States Code, plus 2 percent. In each succeeding fiscal year, the rate shall be increased by an additional 2 percent, or such lesser amount as is necessary, until it equals the rate determined annually by the Office of Personnel Management under such section 8348(j), after which it shall be determined in accordance with such section 8348(j).**

## SECTION-BY-SECTION ANALYSIS

To accompany a draft bill

"To amend title 5, United States Code, to reform the Civil Service Retirement System, and for other purposes."

The first section titles the bill as the "Civil Service Retirement Reform Act of 1987."

Section 2 contains the various amendments to chapter 83 of title 5, United States Code, designed to bring the Civil Service Retirement System more into line with the newly-created Federal Employees' Retirement System and to reduce unwarranted subsidies from the Civil Service Retirement Fund to the United States Postal Service and the District of Columbia government.

Paragraph (1) of section 2 amends section 8340 by adding a new paragraph (3) to subsection (a) defining the term "percent change in the price index," and by revising subsection (b) to provide that cost-of-living adjustments shall be either the lesser of the percent change in the consumer price index (CPI) or 2 percent, if the change in the CPI does not exceed 3 percent, or the percent change in the CPI minus 1 percent, if the CPI change exceeds 3 percent. This computation method is consistent with that provided under the Federal Employees' Retirement System. Paragraph (1) also authorizes an adjustment only in a year in which the CPI for a base quarter exceeds the CPI for the base quarter of the preceeding year in which an adjustment was made.

Paragraph (2) of section 2 amends section 8348 to end the requirement that the Postal Service pay for certain increases in the unfunded liability of the Civil Service Retirement System. Assessments under subsection (h) of section 8348 will be limited to Postal Service pay increases prior to October 1, 1987. However, paragraph (2) then adds a new subsection (j) to section 8348, requiring the Postal Service and the D.C. government each to contribute to the Fund a sum to be determined by applying to the total basic pay, as defined in section 8331(3) of title 5, United States Code, paid to its employees covered by Civil Service Retirement, the percentage rate that is the excess of the total normal cost for the Retirement System, as most recently determined by the Board of Actuaries of the Civil Service Retirement System, including the effects of future cost-of-living adjustments and future increases in pay, over the employee deduction rate specified in section 8334(a) of



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title 5, United States Code. If the normal cost for any fiscal year differs from the previous year's rate, the new rate is not used in computing the Postal Service or D.C. Government payment until the beginning of the first fiscal year following the rate determination by more than a year.

Section 3 amends chapter 84 of title 5, United States Code, by repealing section 8420a, relating to alternative forms of annuities under the Federal Employees' Retirement System. Section 8424(a) and the analysis for chapter 84 are also amended to eliminate references to the repealed section.

Section 4 amends Public Law 99-335 by repealing sections 204, 408, and 505 and the amendments made by those sections, thus eliminating the provisions relating to alternative forms of annuities under the Civil Service Retirement System, the Foreign Service Retirement System, and the CIA Retirement System, respectively. Section 702 is also amended in paragraphs (3) and (5) to eliminate references to repealed sections 204 and 505, respectively.

Section 3 provides in subsection (a) that, except as provided in subsection (b) of that section, amendments made by the Act shall take effect on the date of enactment of the Act.

Subsection (b) provides for phasing in increased contributions to the Retirement Fund by the Postal Service and the D.C. government by stating that, notwithstanding the provisions of section 8348(j) of title 5, United States Code, as added by section 2(2)(B) of the Act, in fiscal year 1987, each of those entities shall contribute to the Fund a sum to be determined by applying to the total basic pay, as defined by section 8331(3) of title 5, United States Code, paid to its employees the employee deduction rate specified in section 8334(a) of title 5, United States Code, plus 2 percent. Then, in each succeeding fiscal year, the rate shall be increased by 2 percent, or such lesser amount as is necessary, until it equals the rate determined under the new section 8348(j).

## STATEMENT OF PURPOSE AND JUSTIFICATION

To accompany a draft bill

"To amend title 5, United States Code, to reform the Civil Service Retirement System, and for other purposes."

### Cost-of-Living Adjustments

In June 1986, a new Federal Employees' Retirement System (FERS) was created to cover Federal employees hired on or after January 1, 1984. The new system more closely parallels private sector practice than the older Civil Service Retirement System (CSRS), which retains many of the overly generous features that were not incorporated into the new system. For example, only 3 percent of all private pensions are fully and automatically adjusted for inflation, and yet benefits under the CSRS continue to be linked to the total change in the Consumer Price Index (CPI).

In order to provide greater consistency with the private sector and restore a measure of equity within the Federal service, the draft bill would revise the method of computing cost-of-living adjustments under CSRS to conform with that applied to most individuals covered by FERS. Effective on the date of enactment, adjustments would be limited to either the lesser of the percent change in the CPI or 2 percent, if the CPI change does not exceed 3 percent, or the percent change in the CPI minus 1 percent, if the CPI change exceeds 3 percent. The proposed change would reduce outlays by \$183 million in the first fiscal year and by nearly \$3.7 billion over the first 5 fiscal years.

### Contribution Rates for Postal Service and D.C. Government

The rates at which agencies contribute to the Civil Service Retirement Fund currently parallel the rates paid by employees. This is true even for purportedly financially self-sufficient entities such as the United States Postal Service and the D.C. government. Under this proposal, these two entities would be charged the difference between the dynamic normal cost of the Retirement System (as determined by the Board of Actuaries) and the employee contribution rate, thus ending a substantial, hidden Federal subsidy to these entities. This change would be phased in by adding 2 percent each year to the agency contribution rate until the correct contribution rate is reached, and is expected to generate additional income of more than \$170 million in the first 5 years.

### Lump Sum Withdrawals

Public Law 99-335, which created the new retirement system for Federal employees, introduced a new feature not only in that system but also in the other major Federal retirement systems. For the first time, employees were given the opportunity to withdraw all their contributions to the system in a lump sum at the time of retirement and receive a reduced annuity based only on the Government's contributions. These provisions have created significantly increased outlays in the near term, posing major problems in meeting the deficit reduction targets mandated by law.

In addition, we are concerned about the risk of inadequate retirement annuities presented by this election, especially for lower income employees. Since we do not expect employees to receive any economic advantage from their choice, the risk of having employees make a poor choice and jeopardize their long-term retirement living standard is difficult to justify, particularly when it impedes our efforts to reduce the Federal deficit.

The bill would, therefore, repeal the alternative annuity provisions from all major Federal retirement systems, effective on the date of enactment. Reductions in outlays would be more than \$1.3 billion in the first year and nearly \$5.7 billion in the first 5 years.